



## FY2023 Budget Narrative

### Executive Summary

Fiscal Year 22 was a challenging year for Brattleboro Memorial Hospital (BMH) due to the effects of COVID19 and the labor force challenges. Starting in January 2022 BMH experienced significant reduction in utilization due to the Omicron Variant of Covid. As a result 10% of our staff was unable to come to work, reducing patient services. The impact of the surge in 2022 lasted approximately 6 months, so utilization was below expectation for approximately half of Fiscal Year 22.

Operating Margin for FY22 was (4.2%). BMH comfortably met its bond covenants in Days Cash on Hand at 153.86 with a covenant of 100 days, and Long Term Debt to Capitalization 17.27% with a covenant of 60%, however the Debt Service Covenant was just met at 1.21 with a covenant of 1.20.

Fiscal Year 23 proved to be a rebound from the challenges of FY22 with services provided in several areas increasing over FY22. Inpatient Admission by 12%, Inpatient and Outpatient surgeries up 6% and 17% respectively, Imaging up 5% and Oncology by 12% all contributing to an increase of Net Patient Revenue of 17.24%.

As of May, 2023, again BMH met its Days Cash on Hand at 120 days compared to the covenant of 100 days, Long Term Debt at Capitalization of 22% as compared to the covenant of 60% but is not meeting the debt service at .55 as compared to a covenant of 1.20. Days cash on hand have reduced from 153.86 at the end of FY22 to 120 as of May, 2023.

Operating expenses FY23 are exceeding budget: Contract Labor (including Locum Physicians) 18.95% or 864K over budget, Contracted Services 8.3% or 387k over budget, Medical/Surgical supplies 16.1% or 332K and other expenses 6.9% or 299K. BMH experienced unfilled positions requiring the use of contract labor. In addition, there was an increase in Plant Security to address safety issues in the ED, unforeseen repairs with our boiler and facilities, as well as IT expenses associated with unforeseen regulatory and cyber security needs.



While BMH, has experienced an operating loss as of March 2023, the trend is an operating loss of (1.9M) or a +2.3M turnaround from the FY22 year-end performance.

BMH took a conservative approach to our FY24 budget, relying on a modest increase in utilization, the anticipated IPPS Medicare increase, continuing to monitor operating expenses which resulted in a commercial rate increase of 1.5% for the full year.

## Questions

### Factors Used In Proposed Budget

Using FY22 as the basis, Wages/Benefits increased by 14.89% as compared to the GMCB budget guidance of 13.4%. BMH's FY24 Budget includes a 5% increase for all positions as well as an increase of 5.5 FTEs. There are two reasons for the 1.49% positive variance over the GMCB guidance: (1) In FY22 BMH finalized nurses' union contract negotiations which provided an increase for all nursing positions (2) BMH continues to experience staffing vacancies. In light of low unemployment rate of 1.7% as per the Bureau of Labor and Statistics, May 2023, BMH needs to remain competitive to attract labor. In addition, the average 2-year increase of the Employment Cost Index was 7.0% making the 5.0% increase reasonable.

Overall utilization increase was factored a 1% over the run rate of FY23 with the exception of surgery and emergency room services which was factored at 5%. A new physician for Orthopedics was hired in FY23 who is now fully productive. In addition, BMH is actively recruiting for an additional orthopedic surgery which will increase utilization further. Our Orthopedic growth has largely been targeted to the areas of Massachusetts and New Hampshire which borders us. Furthermore, BMH has experienced a year over year increase in ED visits with a 14% increase between FY22 and FY23 projected with no anticipated end to this trend



BMH has budgeted an increase in pharmaceutical expenses of 5.25% between FY22 and FY24 budget. While the guidance is allowing for a threshold of 4.4%, BMH did experience an increase in pharmaceutical costs of 6.74% between FY22 and FY23. BMH attempted to stay within the budget guidance of 4.4% over FY22 but also needed to balance the recognized increase between FY22 and FY23 projected, thus figuring a conservative increase of 5.25%

BMH cost inflation assumptions followed the GMCB guidance of 6%.

Charity/Bad Debt was budgeted using historical rates of 2.6% of Gross Patient Revenue.

Under the CMS issued hospital IPPS proposed rule, BMH is anticipating a 2.8% rate increase beginning January 2024 for all Medicare patients. BMH's request for commercial insurer increase is 1.5% for the full year.

BMH has experienced a shift in payer mix between the FY23 budget to the FY23 actuals. There has been a 3.07% increase of Medicare Advantage offset of a reduction in Traditional Medicare and Blue Cross. It

Reviewing the month over month trend for FY23, the payer mix has remained consistent. Therefore BMH does not expect a significant shift in payer mix with 17% of budgeted revenue being Commercial, 14% budgeted revenue being Blue Cross, 5% budgeted revenue from Self-Pay and other sources with the remaining being Medicare/Medicare Advantage, Medicaid. It should also be noted that of the Commercial Revenue received by BMH in FY23, 22% was generated by out of state insurers, primarily Massachusetts and New Hampshire.



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Financial Indicators

	<b>FY24 Budget</b>
<b>Operating Margin</b>	0.74%
<b>Operating EBIDA Margin</b>	4.09%
<b>Operating EBIDTA Margi</b>	9.06%
<b>Debt Service</b>	3.15
<b>Days Cash on Hand</b>	121
<b>Average Age of Plant</b>	18

Proposed FY24 Budget meets BMH Bond Covenants.

Necessary Adjustment to FY22 actuals

In FY22, BMH was recognizing Cares act revenue approximately \$3.7M causing a variance of (\$4.1M) between FY22 actuals to FY24 Budget.

Additionally, BMH is submitting this budget outside of the revenue guidance provided by the Green Mountain Care Board (GMCB). Starting in January, 2022, BMH experienced significant staffing shortages due to COVID Protocols resulting in a reduction of services to patients. FY23 services returned to a more normalized level thus increasing NPSR of FY23 Annualized to FY22 Actual of 17.24%, already exceeding the GMCB guidance of 8.4% between FY22 Actual and FY24 Budget. NPSR increase between FY24 Budget and FY22 Actual is 22.9%.

In addition, other operating expenses for FY24 budget are 8.89% from FY22 actuals. Contracted Services and Salaries are the primary drivers with the goal of reducing voluntary staff turnover rate as well as investment in cyber security and innovation.



### Known Risks

The FY24 budget used a 2.8% rate increase starting January 1, 2024 for Medicare patients as indicated in the 2024 Proposed Rule. As the ruling has not been finalized this poses a risk to the revenue budget.

BMH continues to work toward reducing reliance on contract labor to offset unfilled positions. Should there be any unforeseen recruiting challenges, BMH will need to fill vacancies using contract labor.

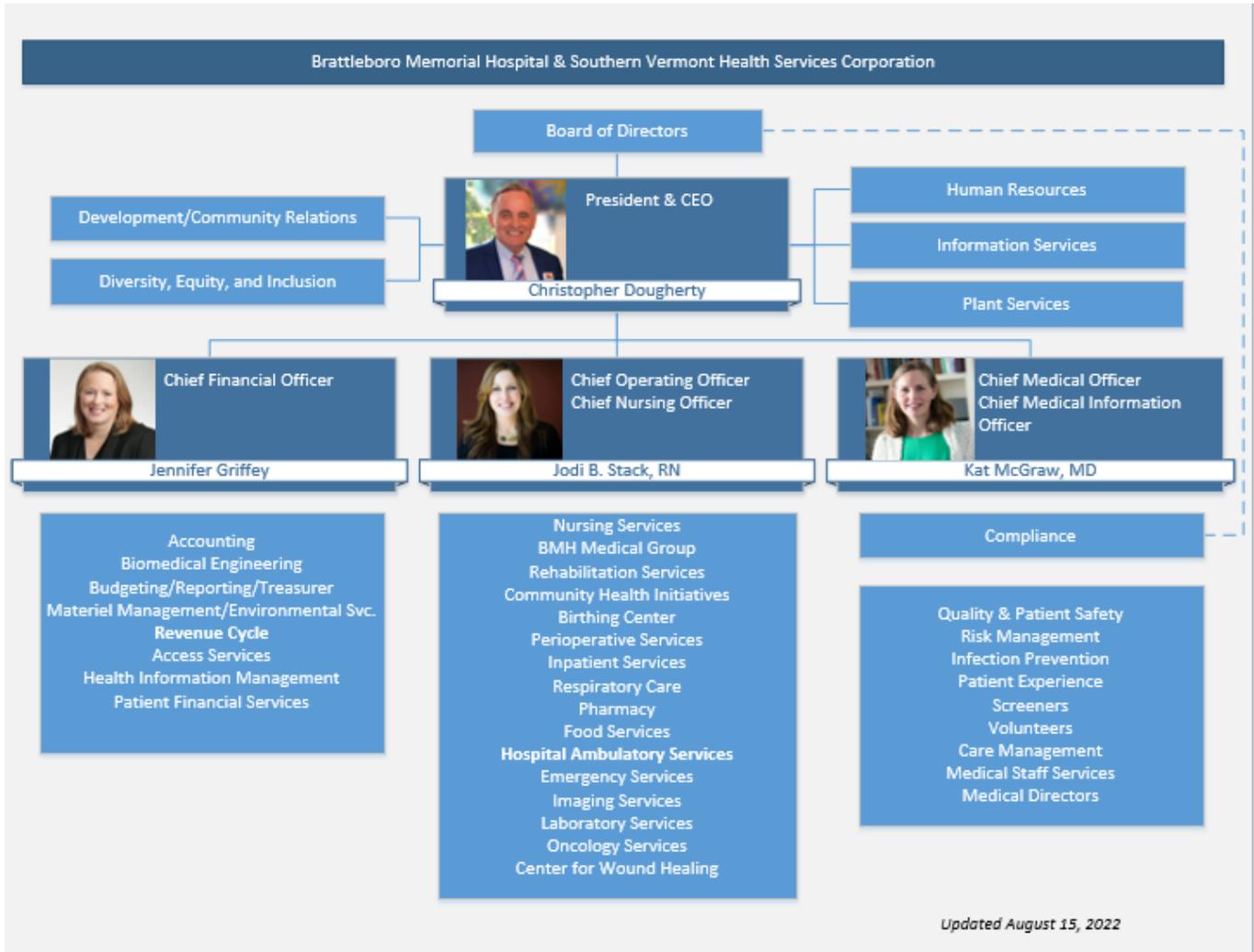
BMH in the past few years has been faced with unforeseen expenses pertaining to regulatory requests, cyber security issues as well as repairs/maintenance due to deferred maintenance. Unforeseen expenses will continue to be known risk.

The 340B program continues to be at risk with additional carve outs and limiting participation with contract pharmacies.

Furthermore, meeting bond covenants are a concern. As of May, 2023 BMH has not met its Debt Service Ratio as per the Bond Covenant. In addition, while BMH has met the Days Cash on Hand, this metric has dropped from FY22 at 153 to 120.

Finally, the status of Medicare Dependent Hospital and Low Volume Status. This program is set to expire in September 2024 thus causing a risk to BMH reimbursement should the program not continue.

Organization Structure



Referrals/Appointment Requests

The referral lag scheduled within 3 business days of referral is 5%. Visit lag between new patient schedule to patient being seen; Within 2 weeks 1.4%; Within 3 Months 68.1% and Within 6 Months 30.5%



### Cyber Security

The FY24 budget includes approximately \$102K for cyber security measures. Measures taken are software for Active Directory validation and reconciliation for active users, security of all VPN connections, Threat Block analyzing traffic and blocking suspicious results before hitting the firewall and an email security reviewing and quarantining emails with virus.

### Cost of Care for Patients Unable to be Transferred to More Appropriate Care.

Emergency Room boarders are a continued challenge. Mental Health visits for FY23 are on trend for 1039 as compared to FY22's 972 visits. Of the FY23 visits BMH is on trend for 240 or 23% of those visits LOS to exceed 30 hours.

### Facility Fees

BMH does charge a facility fee in the ED which is in addition to the physician or advanced practice providers. The fee is to cover the intensity of the services, the operation of the ED 24/7 as well as the requirement of EMTALA to provide emergency services regardless of the patient's ability to pay. Facility fees are charged based on the intensity of care using the appropriate CPT code. Patients are only charged should they require treatment not when they walk in the door.

## Patient Financial Assistance

BMH follows federal guidelines in making reasonable efforts to determine eligibility for patients needing financial assistance before pursuing any collection activities. BMH uses the Federal Poverty Income Guidelines, which are reviewed on an annual basis based on the changes in the Federal Poverty Guidelines, when determining eligibility for financial assistance. Below is the Federal Assistance Income Guideline Grid BMH utilizes when determining eligibility for financial assistance.



**Brattleboro Memorial Hospital**  
EXCEPTIONAL CARE FOR OUR COMMUNITY

<b>Family/Household Size</b> Add \$5,140 for each additional person	<b>100%</b>	<b>up to 250%</b>	<b>&gt;250% to 300%</b>	<b>&gt;300% to 350%</b>	<b>&gt;350% to 400%</b>
1	\$14,580	\$36,450	\$43,740	\$51,030	\$58,320
2	\$19,720	\$49,300	\$59,160	\$69,020	\$78,880
3	\$24,860	\$62,150	\$74,580	\$87,010	\$99,440
4	\$30,000	\$75,000	\$90,000	\$105,000	\$120,000
5	\$35,140	\$87,850	\$105,420	\$122,990	\$140,560
6	\$40,280	\$100,700	\$120,840	\$140,980	\$161,120
7	\$45,420	\$113,550	\$136,260	\$158,970	\$181,680
8	\$50,560	\$126,400	\$151,680	\$176,960	\$202,240
PERCENT OF FINANCIAL ASSISTANCE AWARDED		100%	75%	50%	30%

Patients are notified of the financial assistance program at the time of registration, scheduling, during or after their stay once it is determined that the patient does not have insurance.

Once it is determined that patient either does not have or does not qualify for insurance, the patient may submit an application for financial assistance along with supporting documentation of their income level including by not limited to Federal Income Tax returns, W-2s, paycheck stubs, unemployment/disability benefits statements, government assistance notices, etc.

BMH does have a 3<sup>rd</sup> Party Collection Contract. Fees for this contract are paid as a percentage of collections. After 120 days from the date of the 1<sup>st</sup> billing statement, the account is reviewed for placement with the collection agency. If the bill is not paid in full, a monthly payment plan set up or patient does not apply for financial assistance the account is sent to the 3<sup>rd</sup> party collection agency. At this point, BMH writes the account off as bad debt.



## Administrative Costs

### Breakdown of Administrative Costs

Activity Type	FY24 Budget
Administration	921,078
Benefits	13,361,613
Biomed	208,241
Compliance	-
Compliance/Quality	1,055,158
Depreciation	2,541,343
Dietary	1,459,202
EVS	1,794,374
Finance	1,214,558
Health Information Management	767,814
Human Resources	1,093,286
Information Services	4,322,951
Interest	437,032
Materials Management	447,182
Misc	-
Patient Experience	219,980
Patient Financial Services	2,828,336
Plant Services	2,799,438
Public Relations	288,203
Tax	6,721,088
<b>Grand Total</b>	<b>42,480,877</b>

### FTE

	FTE	Average Salary	Median Salary	Total Salary
Physician	25	\$ 270,063	\$ 251,580	\$ 6,481,514
Midlevel	18	\$ 111,861	\$ 114,499	\$ 1,901,642
Nursing	172	\$ 78,198	\$ 78,211	\$ 13,450,014
C-Suite	5	\$ 307,986	\$ 261,450	\$ 1,434,930
Directors/Managers	50	\$ 115,529	\$ 118,424	\$ 5,776,471
Other Administrative	286	\$ 79,141		\$ 22,594,854